





THE  
GEORGE WASHINGTON UNIVERSITY  
NAVY GRADUATE COMPTROLLERSHIP PROGRAM

COMPTROLLERSHIP IN THE BUREAU  
OF  
AERONAUTICS

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## INTRODUCTION

In addition to providing a framework for uniform budgetary and fiscal procedures throughout the Department of Defense, Title IV of the National Security Act Amendments of 1949 also heralded the advent of an era in which financial management assumed a role of major importance. Accordingly, the comptrollership function, which at this point might be defined broadly as integrated financial management, not only received long overdue legislative recognition, but began to accelerate to boom proportions.

Just what is meant by the term, "Financial Management"? In a comprehensive sense, management may be defined as a "technique by means of which the purposes and objectives of a particular human group are determined, clarified, and effectuated".<sup>1</sup> As a part of this overall management structure, financial management assumes responsibility for all fiscal matters, including budgeting, accounting, disbursing, programming, budgetary control, statistical reporting, and internal auditing. All too often, however, people tend to confuse the relationship between financial management and comptrollership. While financial management is a line function properly exercised by management, the comptroller, as a member of the management staff, merely provides fiscal information to such management.

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<sup>1</sup>E. Petersen and E. G. Plowman, Business Organization and Management (Rev. ed.; Chicago: Richard D. Irwin, Inc., 1949), p.32



By analyzing comptrollership functions in the Bureau of Aeronautics several purposes are achieved: first, in tracing the legal and policy background of comptrollership at the bureau level one obtains a synoptic view of this function throughout the Department of Defense; second, because of its size and scope the Bureau of Aeronautics embraces, to a degree, all the major functions of comptrollership rather than a part; and finally, because the Bureau in its "top-management" capacity in the aviation field is an originator of much of the comptrollership policy promulgated; and therefore offers a broader field of study and analysis.





## CHAPTER I

### POLICY BACKGROUND

#### Promulgation of Title IV

Recognizing the growing need for standardizing fiscal organizations and procedures in the Department of Defense, Congress, on August 10th, 1949, passed Public Law 216. Included in this law, as section 11, was a new Title IV, replacing the one previously passed by Congress in the National Security Act of 1947. And although there will doubtless be many future changes in the text of Title IV as experience accrues, this act nevertheless constitutes a monumental first step toward efficiency and integration of financial management in the Department of Defense.

Summary of Title IV.-- The overall objective of Title IV, National Security Act Amendments of 1949, is effectively stated as the "promotion of economy and efficiency through establishment of uniform budgetary and fiscal procedures and organizations." Specifically, it provided for the following:

- I. Appointment of a Comptroller of the Department of Defense, with the rank of Assistant Secretary of Defense. His duties include:
  - A. Supervision and preparation of the budget estimates of the Department of Defense.
  - B. Establishing and supervising execution of principles,



policies, and procedures relating to preparation and execution of budgets, accounting procedures, statistical reporting, and internal audit.

C. Policies and procedures relating to the expenditures and collection of funds administered by the Department of Defense.

D. Establishment of uniform terminologies, classifications and procedures in all such matters.

II. Comptrollers in each of the three military departments responsible to the Secretary thereof for causing budgeting, accounting, statistical reporting, and internal audit to be conducted consistent with policies and procedures established by the Office of the Comptroller of the Department of Defense.

III. Performance budgets in which all costs of a specific job are consolidated into an identifiable project, and current expenses and capital expenditures are separated wherever possible.

IV. Working capital funds--commercial or industrial funds and stock funds--to finance inventories of stores, supplies, and materials and industrial and commercial type activities within or among the departments and agencies of the Department of Defense.

V. Management funds to finance certain activities which are performed for the joint account of two or more agencies within a military department or of two or more military departments; such activities are not to be of an industrial





or commercial nature and must not involve the financing of the procurement of materials for fabrication.

VI. Maintenance of property records in the three military departments on both a monetary and quantitative basis. The Secretary of Defense must report annually to the President and Congress on these property records.

#### The Budget and Accounting Act of 1950

Another important development in the policy background of military comptrollership was the passage of The Budget and Accounting Act of 1950, Public Law 784, by the 81st Congress. This act established revised law, policy, and procedure for budgeting, accounting and administrative control of appropriated funds. Navy financial and management controls methods were almost completely revised, and concurrent with this revision the influence of the Navy Comptroller and the comptrollership approach to financial management assumed greater importance.

#### The Secretary of Defense Memorandum of September 27, 1950

Pursuant to the passage of Public Law 216 on August 10, 1949, the Department of Defense began aligning its organization, policies, and procedures toward the objectives defined by the new Title IV. On September 27, 1950, the Secretary of Defense issued a memorandum to the Secretaries of Army, Navy, and Air Force, directing that comptroller functions and organizations be established in the military departments. In brief, this memorandum reiterates certain sections of Title IV relating to the establishment of Comptrollers



and Deputy Comptrollers in the three military services and reaffirms the principle of ultimate civilian control over fiscal matters in each military department.

The Comptroller of the Department of Defense is delegated authority by the Secretary of Defense to:

....take all necessary actions and issue all necessary instructions in the area of comptroller functions and organization, and to re-delegate such portions thereof as may be appropriate. In discharging his responsibilities, the Comptroller of the Department of Defense shall have functional control over comptroller activities within the military departments, but directives shall be issued through established organizational channels.<sup>1</sup>

Of particular interest in tracing the growth of Comptrollership in the military services is the above-stated concept that while the Comptroller of the Department of Defense has the power to prescribe policies and procedures and to audit such activities, nevertheless command, or administrative, control remains within established organizational or command channels.

Similarly, the concept of re-delegation of comptrollership functions has a vital bearing on implementation of Title IV. For only through such decentralization will the comptrollership function eventually attain its proper significance and scope. In this regard the memorandum further states:

When comptroller activities are performed at subordinate organizational and command levels, such as a Bureau, a technical service, an administrative office, or a military command, the head of such organizational units may appoint a comptroller. These comptrollers shall be responsible for performing such activities, subject to the administrative supervision and

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<sup>1</sup>Secretary of Defense, Memorandum for the Secretary of the Army, the Secretary of the Navy, the Secretary of the Air Force, (Sept. 27, 1950) p. 3.





direction of the head of their organizational unit and the functional control of the Departmental Comptroller. In a similar manner, a comptroller may be appointed at each industrial or other installation where warranted.<sup>1</sup>

In effect, therefore, while each technical service will have a comptroller's section with fiscal and accounting divisions, similar decentralized organizations will be provided in subordinate installations and operational commands when the workload is sufficient to justify a comptroller section. However, departmental comptrollers will retain functional control over such activities; that is, the power to prescribe policies and procedures, to require compliance therewith, and to review or audit activities within the area of responsibility.

#### The Advisory Committee on Fiscal Organization and Procedures

Although intended solely as an advisory committee, this body--commonly called the Cooper Committee--will, in all likelihood, exert considerable influence upon comptrollership policy in the Department of Defense. It was established August 18, 1953 by Secretary of Defense, Charles E. Wilson, with objectives listed as follows:

An Advisory Committee on Fiscal Organization and Procedures is hereby established under authority of section 303a of the National Security Act of 1947, as amended.

It is desired that this committee conduct a thorough study of the organization, responsibilities, principles, and procedures of the Department of Defense related to fiscal and accounting matters.

The Committee's work will encompass:

- (1) Evaluation of the effectiveness of existing procedures.

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<sup>1</sup>Ibid., p. 3



- (2) Expediting and refining procedures now installed or in process of installation.
- (3) Developing and scheduling new fiscal and accounting procedures which should be adopted.<sup>1</sup>

The Cooper Committee's findings are as yet unpublished, but will be forthcoming in the near future.

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<sup>1</sup>U. S. Congress, Senate, Implementation of Title IV, National Security Act of 1947, as Amended, Hearings before the Preparedness Subcommittee No. 3 of the Committee on Armed Services, United States Senate, 83rd Congress, 1st Session, on Implementation of Title IV, Nov. 2,3,4, 1953, p. 58.





## CHAPTER II

### THE DEVELOPMENT OF COMPTROLLERSHIP IN THE DEPARTMENT OF THE NAVY

#### Fiscal Management Prior to Passage of Title IV

Like the other two military departments, the Navy had, prior to the passage of Title IV, National Security Act Amendments of 1949, recognized the growing importance of fiscal management. In 1946 the Navy had, in conjunction with the Navy Appropriation Subcommittee of the House Appropriations Committee, recommended to Congress a revised appropriation structure based along program and performance lines. Moreover, the Navy had previously coordinated the budget with progress and statistical reporting, established property accounting on an item and dollar basis, used a revolving stock fund to finance common usage items on an issue basis, and employed commercial type accounting at major activities. However, no integrated functional scheme existed throughout the Department of the Navy, nor were many of the functions performed on more than a token basis.

#### Establishment and Organization of the Office of the Comptroller of the Navy

In accordance with Title IV the Secretary of the Navy, by Charter of June 1, 1950, established the Office of the Comptroller of the Navy. This document set forth, in general, the authority, duties, and responsibilities of the Comptroller of



the Navy. However, it was found in the light of experience that this charter required a more definitive statement of the Comptroller's functions. Specifically, functions whereby the Comptroller would make collateral information available to management where needed. Consequently, on August 26, 1952 a revised charter was promulgated by the Department of the Navy. In this directive the duties and responsibilities of the Comptroller are set forth as follows:

The mission of the Comptroller, under the authority of the Secretary of the Navy, is to formulate principles and policies and to prescribe procedures in the areas of budget, fiscal, accounting, audit, progress and statistical reporting throughout the Department of the Navy to the end that their use will result in meeting the operating and planning requirements of management with efficiency and economy. In general, the Comptroller will function in a staff capacity, except in specific cases when operations are required in the discharge of his statutory responsibilities, or by specific directive of higher authority. Examples of these are: the conduct of audits, the provisions of financial assistance to defense contractors, and the performance of central accounting operations.

The comptroller is directly responsible for budgeting, accounting, progress and statistical reporting, internal audit, providing financial assistance to defense contractors, and for the administrative organization structure and managerial procedures relating to such responsibilities within the Department of the Navy.<sup>1</sup>

In addition, the charter defines the duties of various subordinates--Deputy Comptroller; Assistant Comptroller, Director of Budget and Reports; Assistant Comptroller, Accounting and Finance; Assistant Comptroller, Audit--and defines the functions of the Policy and Planning Council. (See organization chart--Figure 1)

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<sup>1</sup> Department of the Navy, Office of the Comptroller, Enclosure (1) to NAVCOMPTINST 5460.1, (26 August 1952) p. 1.





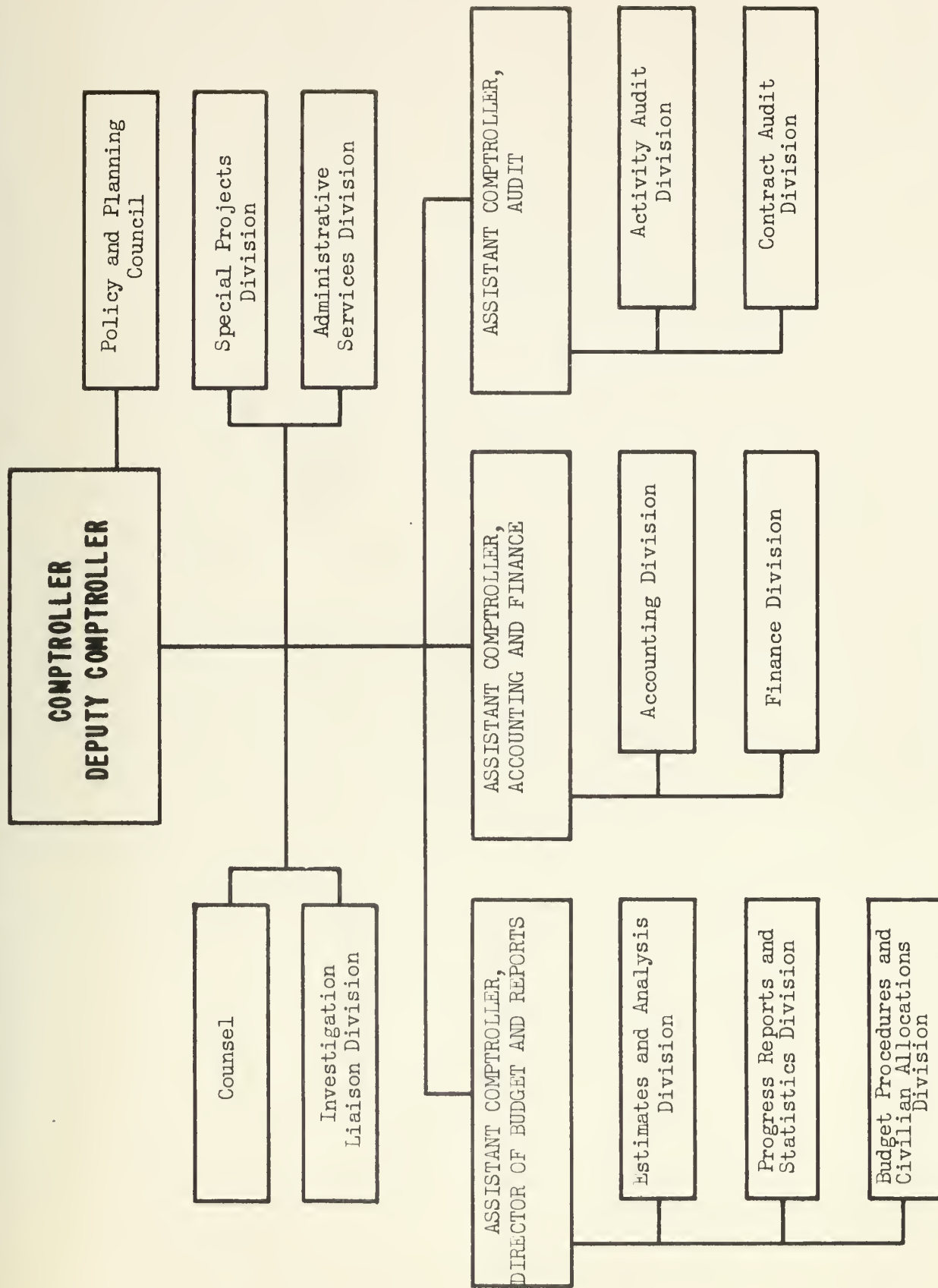


FIGURE -/-



This charter, like previous legislation and fiscal directives, reaffirms the concept that a comptroller--with certain specified exceptions--shall function in a staff capacity. The danger of the financial advisor exercising authority in the operational field, where the primary considerations are, of necessity, tactical and strategic in nature, was clearly recognized by policy makers. The comptroller's function was construed, therefore, as providing integrated and effective staff service in fiscal matters to the commanding officer. The Comptroller's authority and responsibility are to be exercised primarily through the medium of technical control, the specialized or professional guidance and direction exercised by an authority of the Naval Establishment in technical matters. For example, policy statements and instructions relating to Comptroller's operations in the Navy are defined in the Navy Comptroller Manual; and, hence, are binding upon the entire Naval Establishment. However, such policy statements and directives are promulgated through command lines.

A final aspect of the Navy's organization for comptroller-ship concerns decentralized operations and parallel authority and accountability. As stated previously, authority and responsibility for fiscal management is centralized in the Comptroller of the Navy; but certain essential operations--budgeting, statistical reporting, accounting, etc.--are decentralized to bureaus, offices, and field activities. This delegation of fiscal management with attendant responsibilities parallels, whenever possible, management and command lines of authority and responsibility. Illustrative of this decentralization and accountability within the Navy





Department is contained in the following:

On 1 July 1954, the beginning of fiscal year 1955, commanders will assume greater responsibility for the use of appropriated funds required for the daily operation of their commands.

Headquarters Marine Corps has published, or otherwise made available, the regulations and instructions with which commanders are expected to conform in the fulfillment of their increased fiscal responsibility. These regulations and instructions are detailed, technical and voluminous. I do not expect all commanders to be fully informed on all the details of each regulation and instruction. Every commander must, however, be sufficiently acquainted with regulations and instructions to ensure intelligent supervision of the financial affairs of his command.<sup>1</sup>

Additional Policy Directives in the  
Department of the Navy

Navy Comptroller letter NCB-31 NCB811 of 12 December, 1951.-- This letter established the Navy concept of comptrollership and outlined Navy objectives in the field of fiscal management. To date, this program has been only partially implemented, but is a particularly emphatic statement of Navy objectives in this field. Also, this directive recognizes the close relationship of financial and operational matters and suggests that control information provided by the comptroller is an essential basis for general management decisions.

Navy Comptroller letter of 16 May 1951.-- In this directive are outlined the foundations of the Navy Internal Audit Program which is presently in full operation.

Navy Comptroller Notice 7000 of 16 April 1952.-- This directive outlines an overall program for integration of budgeting

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<sup>1</sup>Department of the Navy, Headquarters, United States Marine Corps, Marine Corps Commanders and their Fiscal Responsibilities, NAVMC 1093-FD, May 27, 1954, Ltr. of Transmittal.



and accounting functions. Alignment of these two functions had long been a matter of concern to the Bureau of the Budget, and certainly much of the impetus given to clarification of this problem within the Department of Defense arose from a desire to strengthen its annual budget presentation to the Bureau of the Budget.

SECNAV Instruction 5400.4 of 18 November 1953.-- The subject of this directive was "establishment of comptroller organizations in bureaus, headquarters, offices, and field activities of the Navy and Marine Corps". In it the Navy enunciates its concept of comptrollership as practiced in the Department of the Navy in the following points:

- (1) Emphasizing the constructive aspects of the reporting, analysis and interpretative functions as distinct from the purely recording function.
- (2) Improving budget formulation and execution through the collection and utilization of accounting and program data at all organizational levels.
- (3) Coordinating and integrating the several comptroller functions to provide concisely to the commanding officer the basic data essential<sup>1</sup> for efficient, economical, and effective management.

Further, this directive seeks to accelerate the program of establishing comptroller organizations in subject activities, defines the criteria for determining where comptroller organizations should be established, and delineates the functions performed by comptrollers at various command levels. Further analysis of this directive will be undertaken in later pages when we turn to a consideration of functions and organizational aspects of comptrollership in the

<sup>1</sup>Department of the Navy, Office of the Secretary, SECNAV Instruction 540014, 18 November 1953, Enclosure 1, p. 1.





Bureau of Aeronautics. Suffice to say at this point that this policy directive provides the broad framework about which the present bureau and field level organizations are molded.



### CHAPTER III

#### COMPTROLLERSHIP IN THE BUREAU OF AERONAUTICS

##### Organization and Functions

As noted in the previous chapter, SECNAV Instruction 5400.4 established comptroller organizations at specific levels of command. To conform with this policy--that each Bureau establish a Comptroller organization and perform the functions required--the Fiscal Division of the Bureau of Aeronautics was re-designated as "Comptroller Division" and organized as follows:

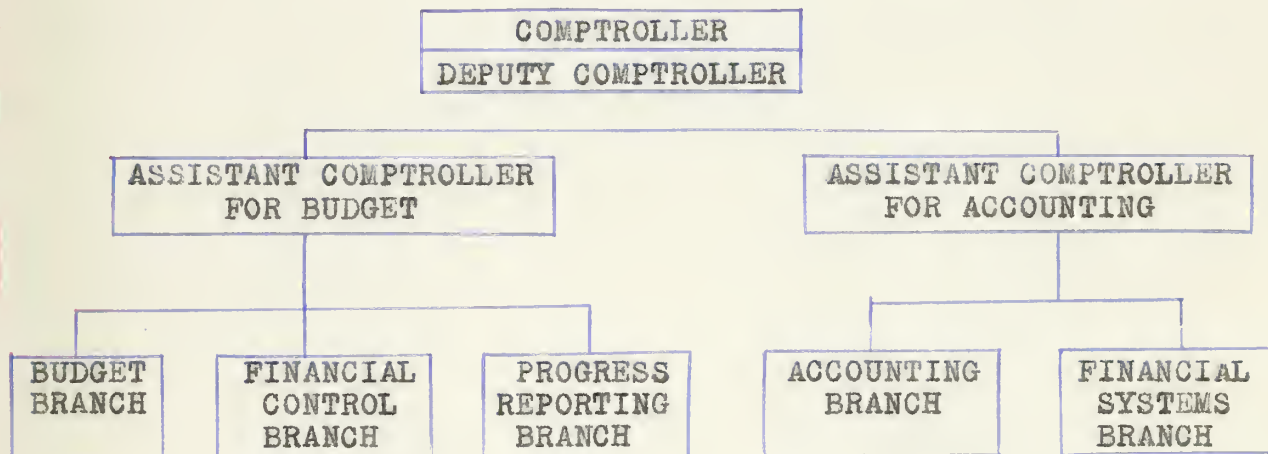


Fig. 2.--Comptroller Division, Bureau of Aeronautics<sup>1</sup>

Comptroller Division: FUNCTIONS.--The Comptroller Division, a staff division under the Deputy and Assistant Chief, is responsible for developing, coordinating, and maintaining an integrated

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<sup>1</sup>Department of the Navy, Bureau of Aeronautics, BUAER Instruction 5430.1, Change 14, 1 August 1954.





system of staff service in the financial management area that will provide management authorities with factual data for effective management control; for translating program requirements into the required financial plan and for preparing the Bureau of Aeronautics budget; for comparing program performance with the budget plan, analyzing variances therefrom, and determining where financial re-programming may be required; for coordinating a program progress and statistical reporting system; and for accounting for all appropriations and funds under the control of the Bureau of Aeronautics.

Assistant Comptroller for Budget.--The Assistant Comptroller for Budget is responsible for planning, coordinating, administering, and controlling the budgetary functions, policies, and procedures relating to the appropriations and funds assigned to the Bureau of Aeronautics; for analyzing and reporting on the Bureau's program performance; and for controlling the release of aviation personnel ceilings and funds to the Bureau of Aeronautics and its field establishments. Functions of the three branches subordinate to the Assistant Comptroller for Budget are as follows:

I. Budget Branch.

- A. Plans and correlates Bureau budgeting with general management objectives and controls.
- B. Develops, recommends, and administers Bureau budgetary policies and procedures.
- C. Coordinates budgetary aspects of program planning.
- D. Provides guidance and instructions for preparation of budget estimates.
- E. Evaluates and coordinates budget estimates prepared by



Bureau operating divisions; and prepares and, with the collaboration of technical divisions concerned, justifies Bureau budget estimates and apportionment requests.

- F. Devises and maintains a system of budgetary controls to ensure a proper balance between approved programs and available funds, adequate re-programming where essential, and administration of funds in conformance with legal and regulatory requirements.
- G. Recommends to the Chief of the Bureau of Aeronautics the allocation of appropriated funds to budget programs.
- H. Reviews the use of funds by program for compliance with Bureau budget policy, including evaluation of economy and efficiency with which funds are being used, and adjusts program allocations as required.
- I. Analyzes program performance in relation to budget plans for purposes of recommending remedial action in funding where appropriate.
- J. Forecasts budgetary position for the purpose of evaluating program planning.
- K. Interprets or obtains interpretation of appropriation language or substantive law relative to the availability of appropriated funds for specified programs or purposes.

## II. Financial Control Branch.

- A. Plans and correlates within the Bureau aviation allotment and project order policies, procedures, and methods of financing.
- B. Coordinates aviation military and civilian personnel ceiling allocations to stations with funds provided by allotment and project order.
- C. Administers personnel, allotment, and project order reporting field systems.
- D. Reviews with commanding officers and other representatives of aviation field establishments, in conjunction with Bureau operating divisions, the fiscal and personnel aspects of their proposed operating programs.
- E. Evaluates, coordinates, and approves, in acting for the Chief of Bureau, operating division recommendations concerning aviation allotments and project orders.
- F. Allocates personnel ceilings to aviation field





- G. Analyzes, from a fiscal standpoint and in conjunction with Bureau operating divisions, field performance under funds provided by aviation allotment and project order.
- H. Advises aviation field establishments promptly of anticipated changes in support from aviation funds.
- I. Compiles summary reports on field personnel and on field allotments and project order obligations.

### III. Progress Reporting Branch

- A. Formulates guides and criteria for the collection and classification of statistical data as required to present an analysis of quantitative and financial performance.
- B. Coordinates statistical reporting systems in the Bureau and at its field establishments as required to present a quantitative and financial analysis of performance.
- C. Performs special statistical analyses as required.
- D. Develops techniques for appraising and presenting performance for use throughout the Bureau in fiscal planning and financial administration.
- E. Measures and analyses quantitative and financial performance, program status, and trends against approved programs, budget plans, and schedules.
- F. Reports on results of operations to responsible management levels in the Bureau of Aeronautics.
- G. Recommends when changes should be made in program and financial planning to provide a more effective balance between the two.
- H. Provides Bureau-wide consultant and advisory services relating to visual means of presentation, encompassing charts, graphs, and illustrations for all purposes.
- I. Prepares visual and aural presentations covering aviation policies, plans, performance, and budgets.

Assistant Comptroller for Accounting.--Is responsible for planning, coordinating, administering, and controlling accounting policies, systems, and procedures and for accounting for and maintaining records of all appropriations and funds assigned to the





Bureau of Aeronautics. Functions of the major branches of the Accounting Section are summarized as follows:

#### I. Accounting Branch

- A. Plans and correlates Bureau accounting with general management objectives and controls.
- B. Develops and administers Bureau accounting policies and procedures, including internal procedures for the issuance of commitment and obligation documents.
- C. Reviews and evaluates the fiscal aspects of Bureau commitments and obligation transactions, including a determination of the validity of obligations.
- D. Approves or obtains approval of all program charges and the application of program balances to individual transactions.
- E. Administers the Bureau's appropriation accounting system.
- F. Maintains the official accounts for and issues financial statements on appropriations and funds for which the Bureau is responsible.
- G. Reconciles the Bureau records with Departmental control records.
- H. Negotiates with other Government departments concerning the development of and accounting for cross-service financing.
- I. Coordinates relationships with Navy Regional Accounts Offices.
- J. Conducts studies to determine that all sums committed, obligated, and expended are properly accounted for.

#### II. Financial Systems Branch

- A. Supervises and coordinates all budgetary and financial management functions at aviation field establishments.
- B. Acts as special adviser to operating divisions of the Bureau of Aeronautics and to aviation field establishments on all matters of cost reporting, cost accounting, work measurement, industrial funding, and general accounting methods, systems, and procedures pertaining to or affecting field establishments.
- C. Devises, in consultation with operating divisions as





necessary, and directs the installations of industrial-type cost accounting, general accounting, and work measurement systems for the administration of aviation funds expended and stores and property used throughout the establishment.

- D. Reviews and revises existing field accounting and work measurement systems and reports to meet changing management conditions and to insure compliance with new or revised Bureau, Departmental, and statutory regulations.
- E. Formulates, prepares, and issues directives and manuals pertaining to financial management matters at the field level, including budgeting, general accounting, cost accounting, work measurement, and related statistical reporting.

Having briefly considered the functional organization and elaborated on certain duties performed within branches of the Bureau, the remainder of the report will deal with general financial management procedures in that area over which the Bureau of Aeronautics has technical and management control.

### Basic Definitions

Before analyzing financial management procedures common to comptroller organizations in the Bureau, it is essential that certain basic definitions be understood.<sup>1</sup>

- A. Appropriation.-- An authorization by an Act of Congress to incur obligations for specified purposes and to make payments therefor out of the treasury.
- B. Allotment.-- An authorization by the head or other authorized employee of an agency to incur obligations pursuant to an appropriation or other statutory provision. In the Department of Defense the word is further limited in that authority is granted by an operating agency to another office, generally subordinate to it, and pursuant to an allocation or other similar authority.
- C. Allocation.-- Used in the military establishment to signify an authorization by a designated official of a department

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<sup>1</sup>Office of the Assistant Secretary of Defense (Comptroller), Glossary of Terms used in Comptroller Activities, Department of Defense Directive, January 25, 1952.





making funds available within a prescribed amount to an operating agency for the purpose of making allotments.

- D. Program Budget.-- A budget based upon programs, functions, and projects which would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered, rather than upon the things to be acquired.
- E. Budgetary Control.-- The financial control or management of a unit or function in accordance with an approved budget with a view of keeping expenditures or costs within the limitations thereof.

### Financial Management Cycle

Any discussion of the various phases of financial management within the Bureau of Aeronautics must be based upon certain premises: first, these phases are integrated wholly or partially in a single unit according to the stage of development of an organization; second, they are performed in varying number and degree according to the size and command level of an organization; and finally, they are dissimilar to a degree according as the functions of the organizations are dissimilar.

In discussing the financial management cycle, functions will be divided into six major areas: (1) Programming, (2) Budgeting, (3) Administrative Control of Funds, (4) Accounting, (5) Reporting, and (6) Internal Auditing.

Programming.-- Careful financial programming is required for the orderly scheduling of transactions within the availability dates of aviation allotments. Each purchase order, for example, must be placed sufficiently in advance of the allotment completion date to permit delivery of material, processing of invoices, and reporting of public voucher expenditures by the accountable station



or office on or before the allotment completion date. Satisfactory financial programming also requires that obligations for recurring purposes be incurred at a relatively uniform rate throughout the fiscal year, giving due consideration to explainable seasonal fluctuations. This avoids the placing of an abnormal number of contracts during the last two months of the fiscal year.

To keep within the intent of the policy of restricting annual aviation allotments to requirements of the fiscal year for which the allotment was granted, purchase orders placed under current year Series A, B, C, and E Allotments (Allotments constitute an extremely important phase of financial management and will be discussed at greater length in one of the subsequent sections of this report.) normally should specify delivery of material within a reasonable time--in any event, not later than sixty days prior to the allotment completion date. Fourth quarter obligations for procurements--whether the items are ordered by stub requisition or by purchase contract--should not exceed the quarterly average of obligations in this category for the first three quarters of the fiscal year.

In a broader sense, programming is established by the Chief of Naval Operations when he prescribes the mission of a station or office and approves specified levels of operations. For example, The Chief of Naval Operations issues planning data as to the number of pilot flying hours and this data, in turn, is translated by the Bureau of Aeronautics into aircraft flying hours to be supported by individual air stations. Similarly, civilian manpower and certain material requirements are determined by individual stations,





using work measurement data--insofar as possible--as a basis for requirements.

Budgeting.-- In support of various programs conducted by component activities of the Bureau of Aeronautics, allotments are granted to naval shore establishments and to air commands afloat to finance, generally routine maintenance and operation costs and, where specifically authorized, special local procurement. Each aviation allotment is identified for administrative purposes to category or series as follows:<sup>1</sup>

<u>SERIES</u>	<u>TITLE</u>	<u>PURPOSE FOR WHICH GRANTED</u>
A	General Station Allotment	Routine maintenance and operation and general overhead of stations under Bureau management or financial control.
B	Aircraft Operations Allotment	Cost of locally purchased supplies and Navy Stock Account issues required for flight operations and for routine upkeep and servicing of aircraft not in an overhaul status.
C	Aircraft Overhaul Allotment	Charges for civilian labor, locally purchased supplies and Navy Stock Account issues required in the overhaul of aircraft, engines and aeronautical equipment, or for other related work performed in major Overhaul and Repair facilities.
D	Special Purposes Allotment	Support of special functions, offices, or procurement not covered by other allotment series.

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<sup>1</sup>Department of the Navy, Bureau of Aeronautics, BuAer Instruction 7300.2, 22 June 1953, p. 2.





<u>SERIES</u>	<u>TITLE</u>	<u>PURPOSE FOR WHICH GRANTED</u>
E	Research and Development Allotment	Direct costs of routine, recurring, experimental testing and miscellaneous developmental projects.

"Special Functions", as included in allotment D, comprise the following major programs: (1) Industrial Shop Equipment and Plant Improvements Program, (2) General Station Collateral Equipment Program, (3) Major Repair and Minor Construction Projects, and (5) Major Construction Projects. These programs do not expire annually, but have individually assigned completion dates, for expenditure purposes, in keeping with the specific projects for which the allotment is granted.

These allotments, then, constitute the basis for annual budget estimates submitted to the Bureau of Aeronautics by subordinate activities. They are normally based on guidelines--in most years, anticipated guidelines--from higher authority. These guidelines contain program planning factors, such as the number of fleet squadrons to be operated from a station or command afloat, number of aircraft overhauls, and scope of flight operations. Formulation of the budget then commences with the lowest practical echelon and through a process of review and consolidation up through the higher command levels, civilian as well as military, eventually reaches completion in the form of a national budget.

In general, three types of standards for calculating budget requirements are employed by lower echelons: (1) engineered performance standards, (2) work measurement units, and (3) standards based on historical data. And although the work measurement program





has met with considerable opposition because of the difficulty, if not impossibility, of measuring work in such areas as research or executive direction, still the Bureau has spent considerable effort toward developing a work measurement program in applicable fields. The latest revision to the Bureau of Aeronautics Work Measurement Program Manual, dated March 1, 1954, should provide a sounder and more comprehensive basis for estimating fiscal requirements.

In conclusion, it should be noted that the budget, as employed throughout the Bureau of Aeronautics, is an exceedingly valuable tool for planning and controlling the programs at an activity. It provides the criteria for evaluating present, and estimating future, performance requirements; and, all-in-all, is one of the most effective means of control available to financial management. Moreover, budgeting is a continuous year-round process because of the fact that the constant changes in operational plans must, in turn, be reflected by changes in financial plans.

Budgetary Control of Funds.-- In accordance with the long-established principle that the officer-in-command is responsible for all the activities under his command, all officers-in-command of stations, squadrons, and other units are personally responsible for the proper and effective use of the funds provided them.<sup>1</sup> It is of the essence, therefore, that those in such positions of pecuniary responsibility establish and maintain adequate controls over their funds. Inasmuch as budgetary control involves an understanding of what is meant by reservation, obligation, and

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<sup>1</sup>Department of the Navy, Navy Comptroller's Manual, Volume 3, pars. 032000 to 032005.





expenditure stages of administration of funds, these three terms are defined as follows:<sup>1</sup>

- A. Reservation.-- An administrative segregation against an allotment or project order pursuant to which it is expected or anticipated that an obligation and expenditure subsequently will be incurred.
- B. Obligation.-- An order placed, a letter of intent or definitive contract awarded, a specific order issued under an open-end or annual contract, a service received, or any other transaction which legally reserves an appropriation for expenditure.
- C. Expenditure.-- A voucher paid, labor earned, or a transfer between appropriations for material issued from the Navy Stock Account.

The process for delegating the authority to obligate funds is quite simple. When the Chief, Bureau of Aeronautics places an allotment and project order, this represents a delegation of his authority to the officer-in-command of the unit to obligate funds within the limits defined by the authorization. No obligation may be incurred prior to receipt of the official authorization, nor shall any obligation be incurred after the applicable allotment or project order has expired for obligation purposes. An officer in command may further delegate in writing allotment administration to subordinates; however, this does not relieve him of his responsibility to the Chief, Bureau of Aeronautics for employment of funds.

Each officer-in-command, having been issued an allotment or project order by the Chief, Bureau of Aeronautics, becomes responsible for the prudent administration of the funds throughout the reservation, obligation, and expenditure stages. In the light

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<sup>1</sup>Department of the Navy, Bureau of Aeronautics, BuAer Instruction 7000.2, 22 Sept. 1954.

the following is a list of the names of the persons who have been named in the above-mentioned documents, and who are now living in the United States.

1. John A. Smith—an American citizen, residing at No. 1234 Broadway, New York City.

2. John B. Smith—an American citizen, residing at No. 1234 Broadway, New York City.

3. John C. Smith—an American citizen, residing at No. 1234 Broadway, New York City.

The names of the persons who have been named in the above-mentioned documents, and who are now living in the United States, are as follows: John A. Smith, John B. Smith, John C. Smith, John D. Smith, John E. Smith, John F. Smith, John G. Smith, John H. Smith, John I. Smith, John J. Smith, John K. Smith, John L. Smith, John M. Smith, John N. Smith, John O. Smith, John P. Smith, John Q. Smith, John R. Smith, John S. Smith, John T. Smith, John U. Smith, John V. Smith, John W. Smith, John X. Smith, John Y. Smith, John Z. Smith.

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of past experience, administrative controls over the reservation and obligation phases have proven the most effective in preventing over-obligation and in consequence over-expenditure. Control of reservations, however, is strictly a local administrative matter since the Bureau does not maintain any record of reservations. Control of obligations, however, is a matter of the utmost importance; and accurate, detailed obligation records must be maintained for each allotment and project order. These records must be reviewed at least monthly to determine the obligation status of all active allotments and project orders held by the command.

Because of the critical shortage of funds for carrying out the Naval Aviation Program and because shortages, in most instances, reflect discredit upon a particular command, rather severe disciplinary action is levied against commanding officers who fail to administer their funds prudently and to promote effective and economical utilization of funds, manpower, and material. Any Officer-in-charge of a command to which an allotment or project order is addressed is subject by law (Section 3679 , revised statutes) to statutory penalties for any over-obligation or over-expenditure. These penalties subject the officer responsible to appropriate administrative discipline, including possible removal from office or suspension from duty without pay. If an over-obligation or over-expenditure is incurred knowingly and willfully, the officer convicted thereof is subject to a fine of not more than \$5,000, or to imprisonment for not more than two years, or both. For this reason particular attention and scrutiny should be given



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to expenditures and obligations in the following border-line areas:

(1) new construction projects, particularly additions to, and alterations of, quarters and officers' and enlisted men's clubs, (2) annual allowance for structural maintenance of public quarters, (3) purchase of equipment and furnishings for public and private quarters, (4) use of official cars, and (5) assignments of military and civilian personnel to perform only such work as is prescribed in official publications.

A final factor in this general discussion of budgetary control concerns the reversion of allotted funds at the end of a fiscal year. Aviation funds which are not required for use within the period for which intended are promptly reverted to the Bureau of Aeronautics for re-allotment or for return to the United States Treasury as appropriate. This is construed to mean all unobligated funds less a small contingency reserve which may be required for subsequent unanticipated allotment adjustments, such as those caused by price fluctuations. These reversions should be reported on the Allotment Status Statement of the earliest month in which they are known; and, in any event, not later than the last statement of the applicable fiscal year.

Accounting for Funds.--- This phase of the Navy financial management cycle is one in which much room for improvement exists. Particularly is a uniform system of account classification needed for each identifiable type of major activity or capital expenditure as well as for other expenditures of lesser importance. For only through such a detailed account classification can Congress, The Office of the Secretary of Defense, and the Bureau of Budget be



satisfied. Moreover, through such a classification structure, uniformly adopted throughout the services, the compilation of financial management data would be greatly simplified and the results would be of much greater value.

Generally speaking, activities within the Bureau of Aeronautics employ three bases for accounting: (1) cash receipts and disbursement basis, (2) obligations incurred basis, and (3) the accrual basis.

By far the most common system is the expenditure or cash disbursement basis. This is the basis for determining the over-all Government budget surplus or deficit and is required by law. All appropriation charges are distributed to expenditure accounts on an expenditure or cash disbursement basis. Unfortunately, there is at present no formal system of financial control over periodic cash receipts and disbursements other than the initial control over obligations incurred.

The obligations incurred system, the second basis for accounting in the Navy system, is employed extensively for budgeting, financial control, and accounting. As previously mentioned, this system requires that all receipts be accounted for in the fiscal year in which they are earned or receivable; and liabilities for unliquidated obligations must be accounted for regularly. In theory this system is somewhat contrary to an "applied cost" system wherein costs for material and services are applied directly to the fiscal period during which the materials and services are consumed; however, in most instances at field level, the incurrence of the obligations and disbursement of funds are simultaneous with the receipt and







consumption of materials and services. The Navy Stock Fund has been largely instrumental in making this possible. This stock fund is a revolving fund which is used to finance all common items of material and serves as an inventory clearing account, holding materials without charge to appropriations and allotments until ready for use. At such time as these materials are ordered and issued from the Navy Stock Fund, the obligation, expenditure, and consumption are, for accounting purposes, practically simultaneous.

Finally, the Department of Defense and the Navy require the use of the "accrual basis" of accounting for receipts and expenditures for purposes of financial control. This system of accounting is quite similar to the obligations incurred system except for expenditures under contracts (project orders for work to be performed in, or goods to be procured from, Defense industrial or commercial establishments) for procurement of materials and plant equipment, construction, research and development work, maintenance work, and similar services. In these areas it is not enough simply to account for obligations incurred and unliquidated; but it is also necessary to include: (1) costs of goods and services when delivered under such contracts, (2) costs of materials, equipment, and supplies applied at the time they are withdrawn from stock for consumption or use, (3) costs of property acquired and on hand, (4) costs of property in process of construction, and (5) contract payments made in advance of delivery. This type of accounting also requires distinction in accounting for unliquidated obligations between, on the one hand, accounts payable and accrued liabilities (for goods and services delivered) and, on the other



hand, for liabilities for goods or services on order.

Financial Reporting.-- To list the form, function, scope, and purpose of each financial report employed within the Bureau of Aeronautics would itself provide a subject for extensive study and analysis; hence, only reporting areas and subjects are discussed herein.

Monthly fiscal reports are submitted to the Bureau of Aeronautics by field activities to show the status of each allotment and project order; these, in turn, are consolidated by the Bureau to obtain program expenditures and obligations.

A monthly cost report covering flight operations and aircraft overhaul is prepared by stations; while operations and maintenance reports are prepared annually by stations at the time the budget estimate is submitted.

A monthly summary report covering all capital assets is submitted from field activities to the Bureau of Supplies and Accounts which, in turn, furnishes the Bureau of Aeronautics with summary data on real estate, plants, and equipment.

Summary reports on inventory assets are submitted monthly to local Navy Regional Accounts Offices for audit, consolidation and further submission to the Bureau of Supplies and Accounts, Bureau of Aeronautics and Supply Demand Control Points.

Expenditure analyses for Navy Stock Account material issues, Appropriation Purchases Account material issues, and Civilian labor costs, are submitted monthly to the Navy Regional Accounts Office. From there a consolidated listing of the data goes to the bureau







having administrative cognizance of the appropriation and to the Navy Comptroller.

From the above information it is at once apparent that the Bureau of Aeronautics receives obligation data directly from its field activities and expenditure data from the Navy Regional Accounts Office. The Bureau, in addition, requires summary expenditure data from its managed field activities, which is used not only to review financial performance but also to compare with Navy Regional Accounts Office reports. In the event discrepancies exist, field activities are required to take corrective action.

Work measurement reports, listing man-hours utilized to perform designated work units, are submitted periodically to the Bureau of Aeronautics. These reports are used to measure performance and to formulate budget estimates at all levels of command.

In addition to the periodic reports, special management reports of a financial nature are submitted as required by the situation or as requested by individual allotment administrators.

Internal Auditing.-- This phase of financial management is one which, while not neglected, has developed rather slowly in the entire Department of Defense as well as in the Bureau of Aeronautics. There are many checks and balances on funds, to be sure, but nevertheless no independent (of activity commanders) formal organization for internal auditing at the field level exists at present. Instead, special audits are performed by the Navy Comptroller Internal Auditors, by the Navy General Inspector, by District Supply Officers, and by Bureau Personnel.



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